

Growth in pay and retired pay represents \$22 billion of the five-year increase, and increases in operation and maintenance accounts for another \$15 billion. Finally, \$37 billion is accounted for by the difference between the budget resolution, as extrapolated, and the assumed force structure and investment program. This sum could provide for higher unit-readiness levels such as higher manning and training levels, expanded procurement programs to include weapons systems in the earliest stages of development, and real increases in classified programs such as nuclear weapons, intelligence, and communications activities, which the programmatic baseline holds constant in real terms.

Table 17 compares the defense baseline with three alternative defense spending paths. The first path is the Administration's latest defense request. The second path provides no real growth in budget authority for discretionary defense programs (excluding pay and retired pay). The third alternative is a program freeze, in which budget authority (including pay and retired pay) does not grow above the level approved by the Congress for 1983.

TABLE 17. ALTERNATIVE LEVELS OF DEFENSE SPENDING
(By fiscal year, in billions of dollars)

		1984	1985	1986	1987	1988
President's Request	BA	281	330	365	397	433
	O	245	285	323	354	386
CBO Baseline (Budget Resolution Extrapolated)	BA	278	322	350	373	398
	O	242	278	310	333	358
No Real Growth	BA	258	273	288	304	322
	O	234	251	267	285	303
Freeze Budget Authority at 1983 Level	BA	244	244	244	244	244
	O	228	233	236	239	242

In the President's request, defense outlays by 1988 reach \$386 billion, \$28 billion above the baseline level. This represents real growth of about 6.5 percent per year as compared with 4.5 percent in the baseline extrapolation of the budget resolution, and allows more growth and initiatives of the kind described above.

By contrast, if no real growth were allowed in the defense function, 1988 outlays would be only \$303 billion, or \$55 billion less than the baseline. Funding at these levels could require cancellation of some investment programs, rescheduling of others, and some force structure deactivation. Finally, if budget authority were held constant at the 1983 level, 1988 defense outlays would be just \$242 billion. Freezing budget authority would mean a real decline in defense appropriations because of continued inflation, and would require more dramatic cancellations, rescheduling of investment programs, and force structure retirements than the no-real-growth case.

ENTITLEMENTS AND OTHER MANDATORY SPENDING

An entitlement program is one that provides benefits to any person, business, or unit of government that meets the eligibility requirements established in laws and regulations. Authorization for entitlements constitutes a binding obligation on the part of the federal government, and eligible recipients have legal recourse if the obligation is not met. In addition, other permanent appropriations and certain annually appropriated accounts are treated as mandatory even though they are not considered as entitlements by the House and Senate Budget Committees for the purposes of the Congressional Budget Act. The list of mandatory items used here is that agreed upon for the so-called bipartisan baseline, which served as the basis for developing the 1983 budget resolution. The major items in the category are listed in Table 18.

Most entitlement programs provide benefits or services to individuals. Some programs, such as Social Security and unemployment compensation, provide cash payments to individuals to use at their discretion; other programs provide specific services used by eligible individuals (such as medical services under Medicare and Medicaid). Benefit entitlements include guaranteed student loans, railroad retirement, federal employee retirement and disability, supplemental security income, and veterans' compensation and pensions. (One entitlement program--military retired pay--is included in the national defense category.)

A few mandatory items are grant programs for state and local governments. Some of these grants are used to finance the provision of services for individuals--human services block grants, foster care, and vocational rehabilitation. One grant program, general revenue sharing, provides unrestricted fiscal assistance to counties, municipalities, and other units of local government. The farm price support program of the Commodity Credit Corporation is also considered an entitlement.

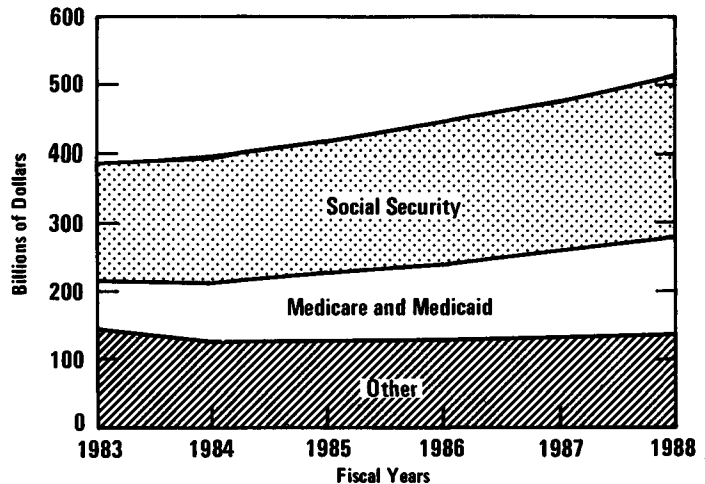
TABLE 18. BASELINE OUTLAY PROJECTIONS FOR ENTITLEMENTS AND OTHER MANDATORY SPENDING (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Social Security Benefits	168	180	192	204	218	232
Medicare and Medicaid	76	86	97	110	126	142
Farm Price Supports	18	9	7	4	5	5
Guaranteed Student Loans	2	3	3	3	3	3
Social Services	4	4	4	4	4	5
Unemployment Benefits	33	27	26	26	26	25
Railroad Retirement	6	6	6	6	7	7
Federal Civilian Employee Retirement and Disability	22	24	25	28	30	31
Child Nutrition	3	3	4	4	4	4
Food Stamps	12	11	12	12	13	13
Supplemental Security Income	9	7	8	8	9	10
Public Assistance	8	8	8	8	9	9
Veterans' Pensions, Compensation, and Readjustment Benefits	17	17	17	17	17	17
General Revenue Sharing	5	5	5	5	5	6
Other	5	4	4	4	3	2
Total	386	394	418	444	477	511
<hr/>						
Memorandum:						
Military Retired Pay	16	17	18	19	20	21

Social Security, Medicare, and Medicaid represent over 60 percent of entitlement spending in 1983. They also account for virtually all of the growth in the 1983-1988 period, as shown in Figure 11. By 1988, these three programs are three-quarters of the total for all entitlements.

Spending for entitlements other than Social Security, Medicare, and Medicaid actually is lower at the end of the projections period than at the beginning. This is primarily because of a projected decline in outlays for farm price supports and unemployment benefits. Spending for these programs, however, has the potential of being higher than assumed here, if

Figure 11.
Entitlement Spending



farm prices turn out to be lower or unemployment turns out to be higher than the baseline assumes.

The projected growth in entitlement programs results primarily from price increases. Most entitlements that benefit individuals are directly or indirectly adjusted, or indexed, for inflation. Social Security benefits, railroad retirement benefits, supplemental security income, veterans' pensions, and civil service retirement benefits are adjusted automatically each year for increases in the cost of living as measured by the Consumer Price Index (CPI). Benefits for certain other entitlement programs, while not tied explicitly to the CPI, also increase directly as a result of inflation. These include the food stamp and child nutrition programs, which are indexed to various food price indexes. As shown in Table 19, such cost-of-living adjustments account for \$58 billion out of the projected \$125 billion growth in entitlement spending over the next five years.

The cost of providing benefits in the Medicare and Medicaid programs, although not explicitly indexed, increases with the rising price of medical services that are provided to eligible beneficiaries. Increases in medical prices cause Medicare and Medicaid outlays to rise by \$46 billion over the

TABLE 19. SOURCES OF GROWTH IN ENTITLEMENTS AND OTHER MANDATORY SPENDING PROGRAMS (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988
Cost-of-Living Adjustments	11	23	34	46	58
Increases in Prices of Medical Services	7	14	24	35	46
Other Sources	<u>-10</u>	<u>-5</u>	<u>*</u>	<u>10</u>	<u>21</u>
Total Growth from 1983	8	32	58	91	125

* Less than \$500 million.

1983-1988 period. Cost-of-living adjustments and medical price rises together represent over 80 percent of the total growth in entitlements.

The remaining growth in entitlement spending results from increases in the number of people eligible for Social Security, Medicare and Medicaid, and other benefit programs, and from projected increases in utilization of medical care services by Medicare and Medicaid beneficiaries. These growth factors are more than offset in the early years of the projections period, however, by the projected declines in spending for farm price supports and unemployment compensation.

NONDEFENSE DISCRETIONARY SPENDING

This category includes all appropriated accounts except those in the defense function, appropriated entitlements (such as Medicaid and assistance payments), and other mandatory appropriations (for example, payments to trust funds). In addition, this category includes a few accounts that are not in the spending jurisdiction of the Appropriations Committees but which have loan limits imposed in appropriations acts (for example, the various funds of the Farmers Home Administration).

Table 20 divides nondefense discretionary spending into seven subcategories. About 30 percent of nondefense discretionary spending consists of grants to state and local governments, the largest of which is for highways. Other major discretionary grants are for waste water treatment plants,

TABLE 20. NONDEFENSE DISCRETIONARY SPENDING
(By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Grants to State and Local Governments						
EPA construction	3	3	3	3	2	3
Federal aid to highways	8	12	13	14	15	15
Urban mass transportation	4	4	4	5	5	5
Airport grants	1	1	1	1	1	1
Community and regional development	5	5	5	5	6	6
Elementary, secondary, and vocational education	6	6	7	7	7	8
Employment and training assistance	4	4	4	4	5	5
Social services	2	2	2	2	2	2
Health grants	2	2	2	2	2	2
Operation of low income housing	1	1	2	2	2	2
WIC and food donations	1	1	1	1	1	1
Energy assistance	2	2	2	2	2	2
Other grants	5	4	4	4	4	5
Subtotal	44	47	50	52	54	56
Aid to Foreign Governments and International Organizations						
Foreign economic and financial assistance	5	5	5	5	5	6
International security assistance	4	5	5	5	5	5
International organizations	1	1	1	1	1	1
Subtotal	9	10	10	11	11	11
Federal Government Operations						
International affairs	2	2	2	2	2	2
Energy information and administration	1	1	1	1	1	1
Consumer and occupational safety and health	1	1	1	1	1	1
Administration of Social Security and Medicare	4	5	5	5	5	5
Administration of justice	5	5	5	5	5	5
General government and other	6	6	6	6	6	7
Subtotal	19	20	20	20	21	21

(Continued)

TABLE 20. CONTINUED

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Infrastructure						
Energy	1	1	1	1	1	1
Natural resources and environment	10	11	11	11	12	12
Transportation	7	7	8	8	8	8
Community and regional development	2	2	2	2	2	2
Subtotal	20	21	22	22	22	23
Assistance to Business and Commerce						
Export-Import Bank	1	2	2	2	1	1
Assistance to agriculture	2	2	2	2	2	3
Commerce and housing credit	4	3	4	4	4	4
Other	*	1	1	1	1	1
Subtotal	7	8	9	9	9	9
Research and Development						
General science, space, and technology	8	8	8	8	8	9
Energy	3	3	3	3	3	4
Health research	4	4	5	5	5	5
Other	2	2	2	2	2	2
Subtotal	17	18	18	18	19	20
Benefits and Services to Individuals						
Housing assistance	10	10	11	12	13	14
Student financial assistance	4	4	4	4	4	4
Other education and training	3	3	3	3	3	3
Health services	2	2	2	2	2	2
Veterans' medical care and other benefits	9	9	10	10	10	10
Other	1	1	1	1	1	1
Subtotal	28	28	30	32	34	35
Civilian Agency Pay Raises	1	2	3	5	7	9
Total	145	153	162	169	177	184

* Less than \$500 million.

urban mass transportation, community and regional development, education, and employment and training assistance. Roughly 20 percent of the nondefense discretionary category consists of benefits and services to individuals. Of these, the two largest components are housing assistance and veterans' medical care.

Between 10 and 15 percent of the category goes to supporting the nation's infrastructure (in addition to those elements of the infrastructure financed through grants to state and local governments). This includes flood control and reclamation, conservation activities, pollution control, the air traffic control system, and the Coast Guard.

A similar amount is used to finance the basic activities of government--the conduct of foreign affairs, the administration of justice, the legislative branch, the tax collection system, and the like. Other nondefense discretionary spending provides for aid to foreign governments and international organizations, assistance to business and commerce, and various nondefense research and development programs.

There are three major sources of growth in nondefense discretionary programs, as set forth in Table 21. First is the increases assumed in the baseline to keep the non-pay portion of discretionary spending up to date with inflation. These discretionary inflation adjustments amount to \$21 billion by 1988, or more than half of the total growth.

TABLE 21. SOURCES OF GROWTH IN NONDEFENSE DISCRETIONARY SPENDING PROGRAMS (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988
Discretionary Inflation Adjustments	2	6	11	16	21
Civilian Agency Pay Raises	2	3	5	7	9
Increases in Transportation Programs	4	6	7	8	8
Other Sources	<u>*</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total Growth from 1983	8	17	24	32	39

* Less than \$500 million.

The second source of growth is pay raises for the employees of federal civilian agencies. The baseline assumes that federal employee pay is increased at the same rate as average earnings in the economy, and that this increase in pay costs is not absorbed through offsetting program cuts. Pay raises amount to \$2 billion by 1984, \$3 billion by 1985, and \$9 billion by 1988.

Finally, spending for a number of transportation programs is slated to rise substantially in the future because of legislation enacted late last year. The Surface Transportation Assistance Act of 1982 (P.L. 97-424) provided multi-year obligations ceilings or budget authority for federal-aid highways, urban mass transportation, grants-in-aid for airports, and some smaller transportation programs. In the absence of further Congressional action, these programs will therefore grow over the next several years. This built-in growth in transportation programs accounts for \$8 billion in outlay increases by 1988.

NET INTEREST

The net interest category for the most part represents interest costs for that portion of the federal debt held by the public, including the Federal Reserve System. It also includes interest payments on tax refunds and, as offsets, interest collections from federal agencies and the public. Interest paid to government trust funds has no net effect, since it is counted both as an outlay and an offsetting receipt.

Net interest costs depend on the level of the total interest-bearing debt held by the public and on interest rates. The debt held by the public grows by the amount of unified budget deficits and deficits of off-budget agencies that borrow from the Treasury. The net interest costs in the baseline reflect both the interest rate assumptions and the projected deficits detailed in Chapter II. Although interest rates are projected to decline, the federal budget deficit is large and rising throughout the projections period. As a result, net interest outlays grow more rapidly than total spending.

Net interest estimates are very sensitive to the assumptions made about future deficits and interest rates. An increase or decrease in the deficit of \$10 billion in each fiscal year during the 1983-1988 period, for example, would cause net interest outlays to rise or fall by amounts ranging from \$300 million in 1983 to \$5 billion in 1988 (at baseline interest rates). A change in the interest rate assumptions has an even larger effect, since such a change affects the refinancing of federal debt incurred in prior years as well as the financing of new debt. Lowering all baseline interest rates by

one percentage point starting in January 1983 would reduce net interest outlays by about \$2 billion in 1983, increasing to \$23 billion by 1988.

Were it not for the projected declines in interest rates, net interest outlays would increase at a phenomenal pace. As shown in Table 22, net interest outlays would more than double between 1983 and 1988 (given the projected baseline deficits) if interest rates remained at the levels prevailing in the final quarter of calendar year 1982. In the baseline, with large deficits but declining interest rates, net interest costs increase by slightly more than half over the projections period. If the budget deficit were held constant after 1983, net interest outlays would rise by about 40 percent.

TABLE 22. NET INTEREST OUTLAYS UNDER ALTERNATIVE ASSUMPTIONS (By fiscal year, in billions of dollars)

	1983	1984	1985	1986	1987	1988
Baseline Deficits and Constant Interest Rates	89	104	122	144	172	204
Baseline Deficits and Interest Rates	87	96	107	117	125	134
Baseline Interest Rates and Declining Deficits	87	96	106	114	119	124

OFFSETTING RECEIPTS

This category consists of certain federal government receipts that are subtracted from outlays rather than being included in revenues. It includes federal proprietary receipts from the public and federal agencies' payments (as employer) for employee retirement and health benefits. Receipts appropriately netted against outlays (for example, foreign military sales trust fund receipts and federal payments to trust funds) are included in the appropriate outlay category.

The major types of offsetting receipts are identified in Table 23. The largest single item is rents and royalties on Outer Continental Shelf (OCS) tracts. Close behind is the federal employer share of employee retirement. The third largest element is the premiums paid by enrollees in

Supplementary Medical Insurance (Medicare Part B) and by those who do not have sufficient quarters of coverage for Hospital Insurance (Medicare Part A). Other receipts are for the sale or lease of minerals, electric power, and timber.

TABLE 23. BASELINE PROJECTIONS OF OFFSETTING RECEIPTS (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Mineral Sales and Leases	-2	-2	-3	-3	-3	-3
Power Sales	*	-1	-1	-1	-1	-1
Timber Sales	-1	-1	-2	-2	-2	-2
Medicare Premiums	-4	-5	-6	-6	-6	-7
Employer Share, Employee Retirement	-8	-9	-10	-10	-11	-11
OCS Rents and Royalties	-10	-9	-9	-13	-12	-11
Other	<u>-5</u>	<u>-7</u>	<u>-7</u>	<u>-6</u>	<u>-6</u>	<u>-7</u>
Total	-32	-34	-36	-41	-40	-41

* Less than \$500 million.

OFF-BUDGET FEDERAL ENTITIES

As explained in Chapter II, the spending of certain federal entities is excluded from the unified budget totals. The outlays of these off-budget entities, however, must be added to the unified budget deficit to derive the total federal deficit that must be financed. A new off-budget entity was created in 1981, when the Congress removed from the budget the appropriation for acquiring oil for the strategic petroleum reserve. The Postal Service fund was given off-budget status in 1974.

Except for the strategic petroleum reserve and the Postal Service fund, the outlays of the off-budget federal entities are incurred for carrying out federal loan programs. As shown in Table 24, the Federal Financing Bank (FFB) accounts for most of the projected off-budget outlays. The FFB's outlays do not come from programs that the FFB operates itself. Instead, the FFB assists other programs within the government by purchasing the outstanding loans (loan assets) or purchasing obligations they have guaranteed.

TABLE 24. BASELINE OUTLAY PROJECTIONS FOR OFF-BUDGET FEDERAL ENTITIES (By fiscal year, in billions of dollars)

	1983 Base	Projections				
		1984	1985	1986	1987	1988
Federal Financing Bank	14	11	13	16	13	14
Strategic Petroleum Reserve	2	3	2	2	4	2
Other	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>*</u>	<u>1</u>
Total	17	15	16	19	17	17

* Less than \$500 million.

When the FFB buys loan assets, it in effect converts direct loans that have already been made by another agency into off-budget direct loans of the FFB. If the selling agency is in the budget, its loan asset sales reduce net budget outlays. Also, when the FFB purchases newly originated guaranteed loans, it has the effect of converting loan guarantees that are not recorded in the budget totals into direct federal loans outside the budget. The FFB and federal credit activities are discussed in more detail in the next chapter.

EFFECT OF RECESSION AND LEGISLATIVE CHANGES ON OUTLAY PROJECTIONS

Despite the reductions in spending enacted over the past two years, baseline outlay projections today are higher than they were two years ago. Table 25 shows the reasons for this.

TABLE 25. DIFFERENCES BETWEEN JULY 1981 and FEBRUARY 1983
BASELINE OUTLAY PROJECTIONS (By fiscal year, in billions
of dollars)

	1983	1984	1985	1986
July 1981 Outlay Projections	792	843	895	950
Differences Due to:				
Changed economic outlook	15	4	5	-1
Legislative actions				
Defense spending increases	15	27	47	65
Nondefense discretionary spending reductions	-26	-26	-25	-26
Entitlement reductions <u>a/</u>	-21	-31	-33	-35
Effect of legislative actions on interest costs	<u>3</u>	<u>10</u>	<u>19</u>	<u>28</u>
Subtotal	-29	-19	7	32
Technical estimating differences	22	22	23	18
Total differences	8	7	35	49
February 1983 Outlay Projections	800	850	929	999

a. Includes changes in other mandatory spending and offsetting receipts.

First, the recession of 1981-1983--unforeseen in the baseline assumptions of July 1981--has caused outlays to rise for unemployment insurance and other programs sensitive to the unemployment rates. In addition, the loss of tax revenues brought about by the recession has increased deficits and therefore indirectly increased interest outlays. Current inflation assumptions, however, are lower than they were two years ago; this slows the growth of indexed benefit programs and also reduces the outlay increases needed to keep discretionary programs constant in real terms. Only by 1986, however, does the effect of lower inflation dominate that of higher unemployment.

Second, assumed increases in defense spending and the indirect effects of legislative changes on interest costs also drive up outlays. In 1983 and 1984, the spending reductions are greater than the spending increases because of legislation, but the situation is reversed in 1985 and 1986, as the defense buildup gathers momentum and interest costs mount.

By 1986, reductions in entitlement spending total \$35 billion. Reductions of \$5 billion or more are found in farm price supports, Medicare, Social Security, unemployment compensation, and the nutrition and income assistance programs. Reductions in nondefense discretionary spending amount to about \$26 billion per year. There are major reductions in energy programs (including moving the strategic petroleum reserve off budget), natural resources and environment (especially wastewater treatment grants), community development grants, training and employment, education assistance, and subsidized housing programs, among others. Although the reductions in nondefense discretionary spending and entitlements are similar in dollar amount, the relative cut in discretionary spending is twice as great, since it is less than half the size of the entitlement category.

The third factor increasing projected outlays is technical estimating differences, which have added about \$20 billion to outlays each year. These consist primarily of unexpectedly higher outlays for farm price supports and Medicare benefits and lower receipts from offshore oil leases.

CBO projects that federal credit activity will grow from a 1983 base of \$136 billion in loan obligations and guarantee commitments to a level of \$164 billion in 1988 if current policies remain in place. While this \$28 billion increase is substantial, it represents a lower rate of growth than occurred in the 1970s, and it would result in a level of federal lending that declines in relation to GNP.

The growth of some credit programs, such as low-rent public housing, is limited by legal ceilings, and lending for commodity price supports is projected to decline. These factors offset projected large increases in federal guarantees for home mortgages. As a result, federal loan obligations and loan guarantee commitments are expected to rise 21 percent between 1983 and 1988 compared with a projected rise in GNP of 50 percent during the same period.

The section that follows describes the concept of the credit budget and defines terms used in the credit budget. The second section presents the credit budget projections in detail and summarizes trends in federal lending by major program category.

CREDIT DEFINITIONS AND ASSUMPTIONS

As discussed earlier in this report, some federal spending--notably a substantial portion of federal credit activities--is omitted from the unified budget. Projections of off-budget spending were therefore included in Chapter IV to provide a more comprehensive measure of federal outlays. Off-budget spending was also added to the unified budget deficit in Chapter II in order to compute a total federal government deficit.

Even when off-budget spending is included, however, the deficit does not give a complete picture of the federal government's impact on credit markets. The picture is incomplete because of two factors: (1) the inclusion of only net borrowing--new loans less repayments--both on and off budget; and (2) the exclusion of federal loan guarantees from on- or off-budget spending totals.

Since the budget operates on a cash-flow basis, repayments of loans count as an offset to outlays. This understates the volume of new lending by

the government. Loan guarantees do not show up at all as a transaction in the budget unless there is a loan default.

In 1981, the federal government entered into net direct loan obligations and primary loan guarantee commitments of \$133.7 billion; the resulting net outlays were \$5.2 billion in the unified budget and \$20.9 billion off budget. The credit budget exists in order to correct these problems in measurement and to provide a means for controlling federal credit.

The federal government provides credit to individuals, businesses, institutions, localities, and foreign governments in two ways: by directly lending to borrowers, and by guaranteeing loans made to borrowers by third parties. (There is considerable variety in federal credit programs; some programs consist of only direct lending or guarantees while others entail both.) The credit budget includes all lending by federal agencies but does not include activities of government-sponsored enterprises. ^{1/} Within the credit budget, direct loans and loan guarantees are recorded separately.

The definitions and program descriptions that follow in this chapter focus on net direct loan obligations and primary loan guarantees, since these concepts measure new credit extended. Adjustments must be made to gross direct loans and loan guarantees in order to remove double-counting and reach the net direct loan and primary guarantee levels.

A direct loan obligation is a contract between the federal government and a borrower where the federal government pledges to make a loan to the borrower when and if the latter meets certain specified conditions. New direct loan obligations measure new credit contracts initiated by the government. By controlling obligations, the Congress can limit the amount of direct loans. Once the obligation occurs, funds must be disbursed when the specified conditions are met.

Net direct loan obligations consist of obligations entered into for new loans to be disbursed by the federal government. Net direct loan obligations differ from gross direct loan obligations in that the former exclude loan asset sales--a financial transaction where an agency issuing a loan combines a group of existing direct loans and sells them in order to obtain new funds

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1. Government-sponsored enterprises are those created by the government that, while now privately owned, consult with the Treasury Department in the marketing of their debt. The major examples are the Federal National Mortgage Association, the Student Loan Marketing Association, the Federal Home Loan Mortgage Corporation, and the Farm Credit Administration.

for lending. The Farmers' Home Administration (FmHA) is the major seller of loan assets, accounting for 96 percent of the \$12.6 billion in loan asset sales that took place in 1982. Although federal loan assets can be sold directly to the public, the Federal Financing Bank (FFB) purchased nearly all federal loan assets in 1982. ^{2/} Loan asset sales must therefore be subtracted from gross direct loan obligations to avoid double-counting of the transaction of the originating agency and the FFB. The credit budget records FFB purchases of loan assets as direct loans of the FFB.

Net direct loan obligations totaled \$60.3 billion in 1982. The largest credit programs in terms of net direct loan obligations in 1982 were Commodity Credit Corporation price supports (\$13.7 billion), Farmers Home Administration agricultural credit insurance (\$8.8 billion), the Rural Electrification Administration (\$5.4 billion), and the Tennessee Valley Authority energy supply program (\$4.5 billion). Net direct loan obligations include on- and off-budget lending programs as well as loans guaranteed by on-budget agencies but which are made by the FFB and disbursed from its funds.

The other major component of the credit budget is loan guarantee commitments. A loan guarantee commitment is a contract between the federal government and a lender that assures repayment to that lender of a loan extended to a qualified private borrower. The lender and borrower must meet certain conditions before a loan guarantee is issued. The Congress can control loan guarantees by limiting commitments or by establishing program criteria in authorizing legislation.

Primary loan guarantee commitments, like net direct loan obligations, reflect only new lending activity. Primary loan guarantees exclude guarantees of FFB direct loan transactions (both loan asset sales and loan guarantees purchased by the FFB and guaranteed by agencies) and secondary loan guarantees, which are guarantees issued for loans previously guaranteed by the federal government. (The Government National Mortgage Association issues secondary guarantees for mortgages that are insured by the Federal Housing Administration and the Veterans Administration to facil-

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2. The FFB is an off-budget agency within the Treasury Department created to consolidate borrowing by federal agencies. The FFB purchases loans with funds borrowed from the Treasury. Since borrowing from the FFB for credit programs is treated the same as a loan repayment in the unified budget, the FFB has the effect of transferring outlays for credit programs off-budget. FFB outlays are the major component of the off-budget deficit.

itate a secondary market and to increase the liquidity of these transactions.)

In 1982, the federal government issued \$66.6 billion in primary guarantee commitments. Among the major programs were: Federal Housing Administration (FHA) housing programs (\$11.5 billion), Department of Housing and Urban Development low-rent public housing (\$27.0 billion), the Export-Import Bank (\$9.2 billion), and guaranteed student loans (\$6.2 billion).

The credit budget baseline, like the unified and off-budget baselines, shows the level of federal activity that would result if current policies were to remain in place. The limits set by the House and Senate Appropriations Committees for fiscal year 1983 are the base from which the majority of credit programs are projected. Exceptions to this rule exist for programs for which there are no appropriation limits (entitlements, defaults, and FFB transactions) and some programs for which the appropriation limits are in excess of the actual level of obligations or commitments that the program will generate. ^{3/} For both of these exceptions, CBO's estimates of program obligations or commitments were used as the base for projections.

Programs with obligations or commitments at the appropriations limit were inflated in the projections to keep the limits constant with the rise in prices. Programs with 1983 base levels lower than appropriation limits were inflated in a similar fashion. The projections were limited by any existing authorization ceilings on lending activity, however. Credit programs without appropriation limits were projected to be consistent with CBO's estimates of loan activity, defaults, economic conditions, or FFB transactions for the individual accounts. Aside from the inflation rate, the major economic assumptions that affect credit are interest rates, housing sales, and farm prices.

CREDIT PROJECTIONS

CBO's baseline projections have net direct loan obligations and primary loan guarantee commitments rising from a total of \$136 billion in 1983 to \$164 billion in 1988, an increase of 21 percent. Net direct loan obligations are projected to remain constant at \$49 billion from 1983 through 1985, decline slightly in 1987, and then rise to \$52 billion by 1988.

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3. For fiscal year 1983, 69 percent of direct loan obligations and 31 percent of primary loan guarantees are not limited by Appropriations Committee action.

The increase from 1983 to 1988 is a modest 6 percent. The increases for primary loan guarantee commitments are more consistent and larger. Commitments are projected to rise 4 percent to 6 percent in each year, from \$87 billion in 1983 to \$111 billion in 1988. The total rise for the period is 29 percent. Table 26 summarizes the increases in net direct loan obligations and primary guarantee commitments.

TABLE 26. BASELINE CREDIT PROJECTIONS (By fiscal year, in billions of dollars)

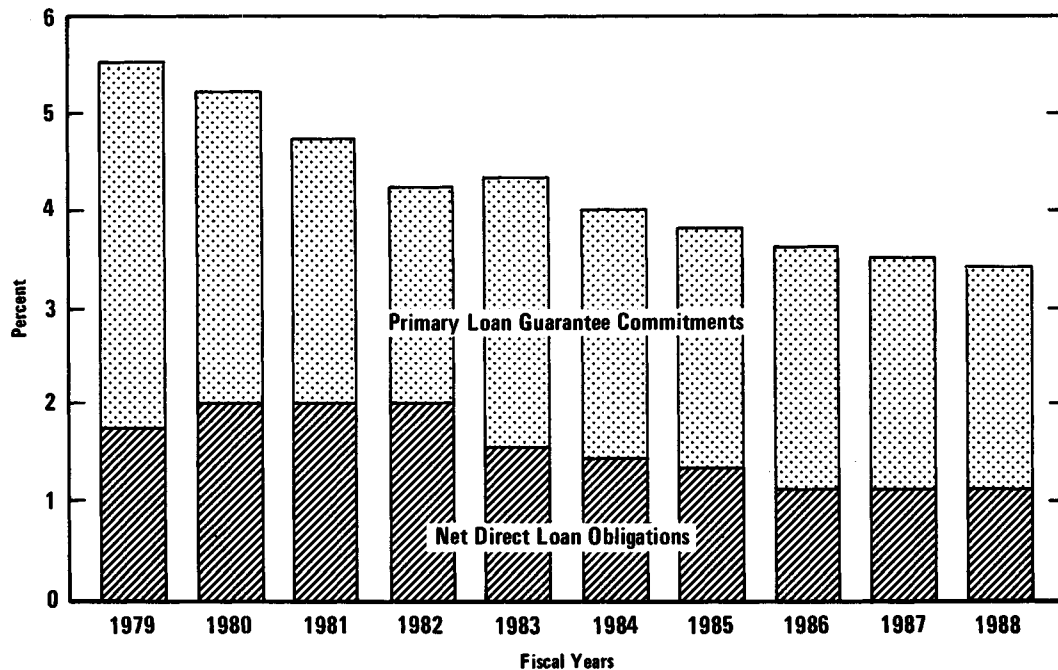
	1982 Actual	1983 Base	Projections				
			1984	1985	1986	1987	1988
Net Direct Loan Obligations							
On-budget	45	32	33	31	29	32	34
FFB Purchases of agency guarantee loans	14	16	16	17	17	17	17
Other off-budget	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Subtotal	60	49	49	49	47	50	52
Primary Loan Guarantees	<u>67</u>	<u>87</u>	<u>90</u>	<u>95</u>	<u>101</u>	<u>106</u>	<u>111</u>
Total	127	136	139	144	148	156	164
Secondary Guarantees <u>a/</u>	69	68	72	75	78	81	84

a. Appropriation limits rather than actual commitments.

While projected federal credit activity rises in absolute terms, it declines as a percentage of GNP between 1983 and 1988. GNP is projected to grow 50 percent from 1983 to 1988 while credit activity is projected to rise only 21 percent. This is in contrast to the period of 1973 to 1982, when GNP doubled and credit activity tripled. Figure 12 shows credit as a percentage of GNP. Net direct loan obligations fall from 1.5 percent of GNP in 1983 to 1.1 percent in 1986 through 1988. The decline for primary loan guarantees is more gradual, falling from 2.7 percent of GNP in 1983 to 2.3 percent in 1988.

The changes in the distribution of federal lending between 1983 and 1988, assuming continuation of current policies, can be explained best by dividing credit programs into six major categories of loans: housing,

Figure 12.
Federal Credit as a Percentage of GNP



business and industry, agriculture and rural development, loans for foreign actions, loans for individuals, and all other. Table 27 contains projections of net direct loan obligations and primary loan guarantees by purpose of loan. ^{4/} The credit projections by budget function are shown in Appendix F.

The distribution of federal lending by category shows that housing programs will maintain their predominant role in the credit budget. Housing loans increase from 54 percent of the total in 1983 to 58 percent in 1988. Loans for business and industry are the other category expected to have major growth. The following paragraphs summarize the reasons for this pattern and define the major loan programs in each category.

Housing Loans

Net direct loans for housing are projected to remain fairly constant in 1983 and 1984 but then to decline from \$10 billion in 1984 to \$7 billion in

4. Since some loan programs serve multiple purposes (such as home loans for farmers and military sales credit), the classification of loan programs is somewhat arbitrary. While the classification affects category, the patterns of change would not alter substantially if these multipurpose programs were reclassified.

TABLE 27. BASELINE PROJECTIONS OF NET DIRECT LOAN OBLIGATIONS AND PRIMARY LOAN GUARANTEE COMMITMENTS BY PURPOSE OF LOAN (By fiscal year, in billions of dollars)

		1982	1983	Projections				
		Actual	Base	1984	1985	1986	1987	1988
Housing Loans	DL	13	9	10	8	7	8	9
	PG	42	64	67	72	76	81	85
	Total	55	72	77	80	83	88	94
Loans for Business and Industry	DL	11	13	15	16	16	16	15
	PG	14	13	13	13	14	15	15
	Total	25	26	28	29	30	31	31
Loans for Agriculture and Rural Development	DL	30	19	17	17	17	18	19
	PG	3	4	3	3	3	3	4
	Total	33	23	20	20	20	21	23
Loans to Foreign Countries	DL	5	6	6	6	6	7	7
	PG	*	*	1	*	*	*	*
	Total	5	6	6	6	6	7	7
Loans for Individuals	DL	1	1	1	1	1	1	1
	PG	6	6	7	7	7	7	7
	Total	7	7	7	7	7	8	8
All Other	DL	1	1	1	1	1	1	1
	PG	1	*	*	*	*	*	*
	Total	2	1	1	1	1	1	1
Total	DL	60	49	49	49	47	50	52
	PG	67	87	90	95	101	106	111
	Total	127	136	139	144	148	156	164

DL = Net Direct Loan Obligations.

PG = Primary Loan Guarantee Commitments.

1986, followed by a gradual increase to \$9 billion in 1988. These fluctuations are the results of the changing volume of loan assets repurchased by the FmHA from the FFB. FmHA accounts for roughly two-thirds of direct loan obligations for housing. FmHA direct loan commitments, excluding FFB transactions, are projected to increase steadily from about \$3.3 billion in 1983 to \$4.1 by 1988.

Primary loan guarantee commitments for housing are expected to increase steadily from \$64 billion in 1983 to \$95 billion in 1988. This increase in commitments results from the projections of stabilized interest rates and a resurgence in home sales. The rise in total guarantees is in sharp contrast to the flat level of guarantee commitments in 1982 and 1983. VA guarantee commitments are an entitlement program and cannot be limited by Appropriations Committee action. They are expected to increase rapidly, with commitments tripling between 1983 and 1988. FHA mortgage insurance commitments are subject to limit and therefore are projected to grow at the same pace as inflation. ^{5/} One type of housing loan guarantee not projected to increase is the low-rent public housing program, which is at or near a ceiling of \$20 billion for 1983 through 1988.

Loans for Business and Industry

The category of loans for business and industry consists of loans made to both businesses and government-sponsored enterprises. Loans to businesses contain few entitlements or insurance-type programs and therefore both net direct loan obligations and primary loan guarantee commitments would experience slow but steady growth if current policies were to remain unchanged. Net direct loan obligations and primary guarantee commitments are each expected to increase \$2.1 billion and \$2.7 billion, respectively, between 1983 and 1988. The Export-Import Bank, which makes direct loans and guarantees to enable U.S. firms to be competitive abroad, accounts for roughly one-third of direct loans and three-fourths of guarantees for businesses. Small Business Administration loan guarantee commitments are projected to keep pace with inflation, growing from \$2.8 billion to \$3.5 billion between 1983 and 1988. The TVA is responsible for the bulk of remaining direct loans in this category. The Seven States Energy Corporation, which leases nuclear fuel to the TVA, uses TVA leases to guarantee direct loans by the FFB.

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5. FHA makes commitments to lenders prior to a contract between the lender and the borrower. The limited amounts are the initial commitments to lenders. The actual commitments are included in the projections totals.